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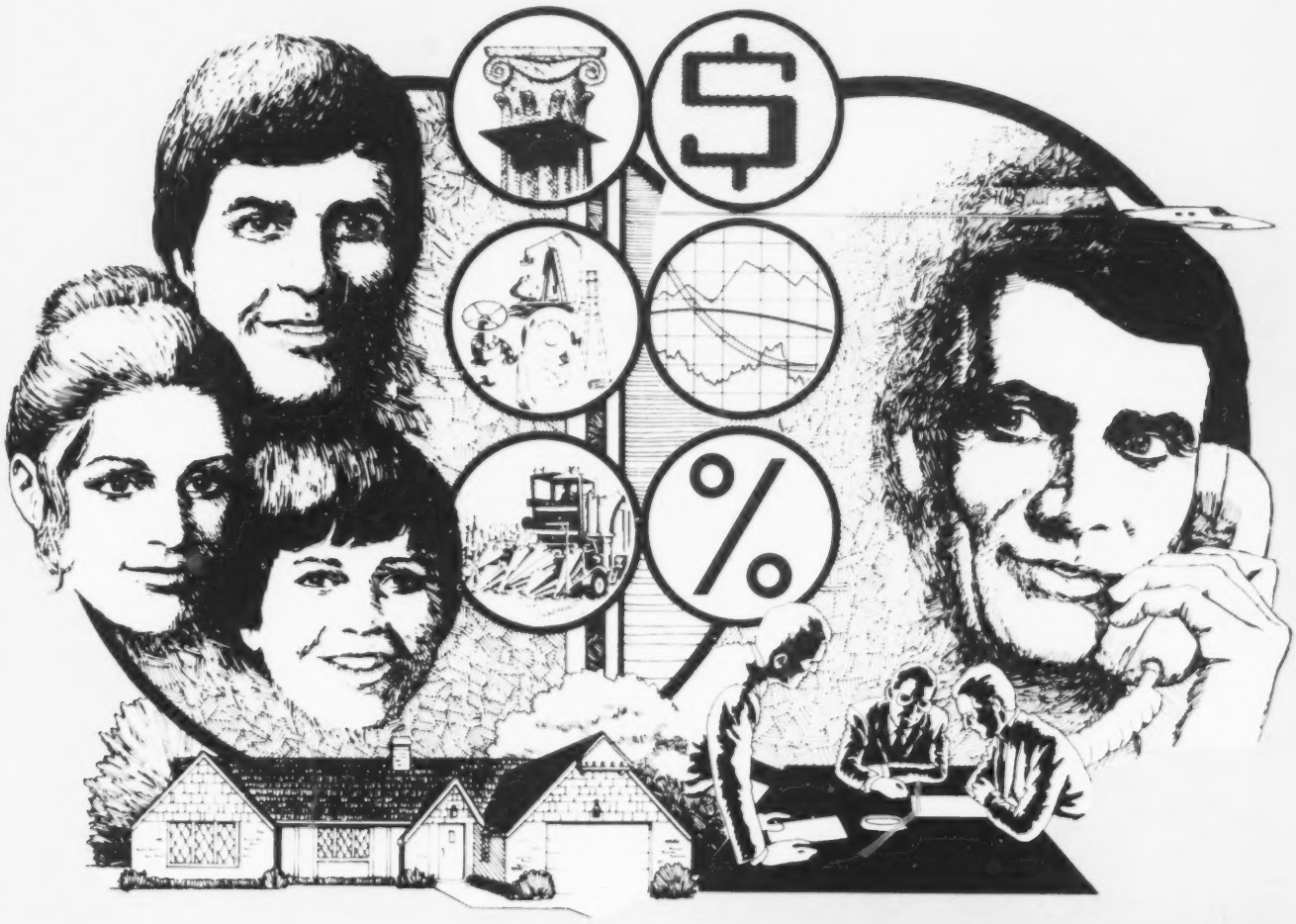
Iowa Development Commission

Digest

Special Issue

Iowa Economics: A Look Inside



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The Iowa Development Commission

Working to promote stable economic growth in Iowa has been the challenge since 1945.

The activities of the Iowa Development Commission are focused on orderly economic growth in the state. Since its inception in 1945, the function of the commission has been to maintain continued recognition of Iowa's achievements in agriculture, to provide an incentive for positive community improvement, to aid in the development of Iowa's growing industrial economy, to assist in expanding markets for Iowa goods and services through international trade, and to promote the Hawkeye State's assets in the field of recreation and travel.

IDC as a Catalyst

Through focusing on these areas, the IDC acts as a catalyst to boost the primary income sectors of Iowa's economy: agriculture, manufacturing and business, and tourism. "Primary income" is defined as those jobs and businesses that bring new money into the state. By concentrating on Iowa's primary income sectors, the IDC has been able to have a positive impact on economic growth in Iowa while spending a minimum of resources.

Carrying this activity one step further, healthy primary income sectors create a strong environment for secondary income sectors such as construction, retail, banking and others. Through both legislation and IDC projects, a substantial contribution has been made to Iowa's business climate. A healthy climate provides the necessary foundation for economic growth and prosperity in the primary income sectors, which in turn strengthens all areas.

The IDC's Goal

The overriding goal guiding the IDC is to bring more money and jobs into Iowa. The programs and policies of the IDC's divisions are designed with this goal in mind.

The IDC's divisions are: Administrative Services, Agricultural Development and Promotion, Community Betterment, Industrial, Public Information, Research and Tourism and Travel.

The working philosophy, that the IDC nurtures and influences the primary income sectors of the state through these divisions, has been effective and efficient for the past 37 years. By working hand-in-hand with Iowa communities, commodity organizations and many other groups, the IDC has made, and continues to make, a positive impact on the Iowa economy.

Iowa's Industrial Roots

Manufacturing and agriculture have grown to become partners in supporting the economic structure known as Iowa.

Iowa was in its first throes of settlement by European immigrants during what history refers to as the "industrial revolution," the 1820s, when the lone craftsperson was making way for mass production by machines and factories. As more immigrants moved into the Iowa Territory, small communities sprang up as centers to service and supply residents of the area. Later, these service centers grew into the cities and towns we know today.

Early Iowa Communities

At first, activity in these centers dealt primarily with processing locally-produced goods and manufacturing locally-needed tools and implements, as well as other commodity goods. Soon, communities of all sizes were supporting wagon and buggy manufacturers, tanneries for processing hides for gloves and saddles and factories for farm machinery, food processors and even breweries were commonplace in rural Iowa.

As Iowa gained the advantages of statehood in the mid-1800s, the population of the state grew with the great U.S. migration to the West. In the early-1900s, Iowa's mainstay — the family farm — began a gradual shift from a self-sufficient unit to a more sophisticated, efficient and larger producer of food. Automation and mechanization propelled Iowa agriculture into the forefront of food production, while lessening the amount of labor needed to produce that food. This trend continues today.

Growth in Manufacturing

At the same time, the communities of Iowa were evolving into sophisticated service centers for a new agrarian state. Highlighting services provided by the towns was the manufacturing of products related to the agricultural economic base for each region. This growth in the manufacturing sector was an

© 1979 Iowa Development Commission

important key to providing jobs for an increasing population. As manufacturing expanded, its influence grew and farm products were shipped across the nation and around the world. Manufacturing and agriculture soon became partners in supporting the economic structure known as Iowa.

Creating New Wealth

The study of economics teaches us that new wealth, new money, is only created in the primary income sectors of the economy — agriculture, manufacturing, mining and fishing. Iowa, fortunately, has been able to grow and prosper because the agricultural industry, so important to the state, has led the world in developing efficient production techniques of all types with the help of individual initiative and excellent research activity. No less impressive is the history of growth in manufacturing. Worldwide demand for Iowa's quality products, coupled with more demand for support services in growing communities, created a greater need for labor in those areas than on the farms. Together, agriculture and manufacturing have served as the key sources of new money into Iowa.

An Integral Partnership

Agriculture and manufacturing have formed such an integral partnership in Iowa's economic base that our communities are dependent on these two sources of wealth to survive. Since 1920, the rural population of most Iowa counties has declined as urban communities have grown and the size of farms increased. Manufacturing can be credited with helping small Iowa communities to survive by providing jobs. The survival

The Productivity Story

One hundred years ago, 50 percent of all Americans were farmers. They struggled all day, every day, to feed and clothe the nation.

Today, less than 5 percent of us are farmers, yet we feed and clothe ourselves — and much of the world — better than ever before. How could fewer and fewer farmers produce more and more food and fiber? Productivity. Look at what's happened just in the last 36 years.

Elements of Production

Three things go into production:

1) *Land.* We've been lucky in the great quantity and quality of our land and all the things in, on and under it. But what accounts even more for our astonishing farm productivity is

2) *Labor.* Our people. Their skill, education, talent for invention and determination to succeed. Just as important is

3) *Capital.* The things we've made to help us work smarter. Our creativity in building machines and finding resources to improve productivity.

This is where the big gains in farm productivity have come from. Technology. Inventions for doing things better. Where it took a day to plow one small field with a horse, a tractor can till several large fields in the same time. Where it took hundreds of people a week to gather a small amount of corn by hand, a combine with a corn head can collect a huge amount in the same time.

Increasing Productivity

America's farmers were willing to change to new methods and machines. And the results were spectacular increases in farm productivity.

It was mainly *new tools* that increased productivity on America's farms. *New arrangements and techniques* to make work easier, improve quality, or increase quantity and *working harder or smarter* are other ways to increase productivity in all fields.

Productivity has no politics. It's as important to societies with different political systems from ours as it is to us. And productivity doesn't play favorites. While there may be some problems along the way and some hardships that must be dealt with, in the long run productivity makes the whole economic pie bigger, so that everybody's piece is bigger.

Everyone Benefits

In fact, in our complex economy — where each of us depends for so many things on the rest of us — you can't have much in the way of a productivity increase without benefitting everyone eventually, in one way or another.

And it's also true that you can't have improved productivity without involving everyone at some stage. Everyone has to understand what productivity can do for us. Everyone has to see the importance of it and cooperate to make it happen.

Productivity is based on individual commitment, but it can only make a big difference when individuals cooperate. Just one person can't strengthen our economy. But enough people working together can.

Each Individual Counts

That's why your own productivity matters so much. Like the one, solitary vote in our political system, individual productivity is the very foundation of what makes things happen in our economic system.

Years ago a famous thinker said "All it takes for things to go wrong in this world is for enough good people to do nothing." That's as true now as it was then.

But so is the reverse. All it takes for things to go right in our world is for enough good people to do their best. Together. Each of us. For all of us.

Adapted from "Productivity in the American Economic System and your part in it . . ." The Advertising Council, Inc.

of these communities is also dependent on their ability to provide needed services to rural residents, primarily farmers. Manufacturing has also played an important role in the development of our larger and more sophisticated Iowa cities.

This partnership between agriculture and manufacturing is a key to understanding industrial development in Iowa. One supports the other; both, in turn, support the state.

Community Support

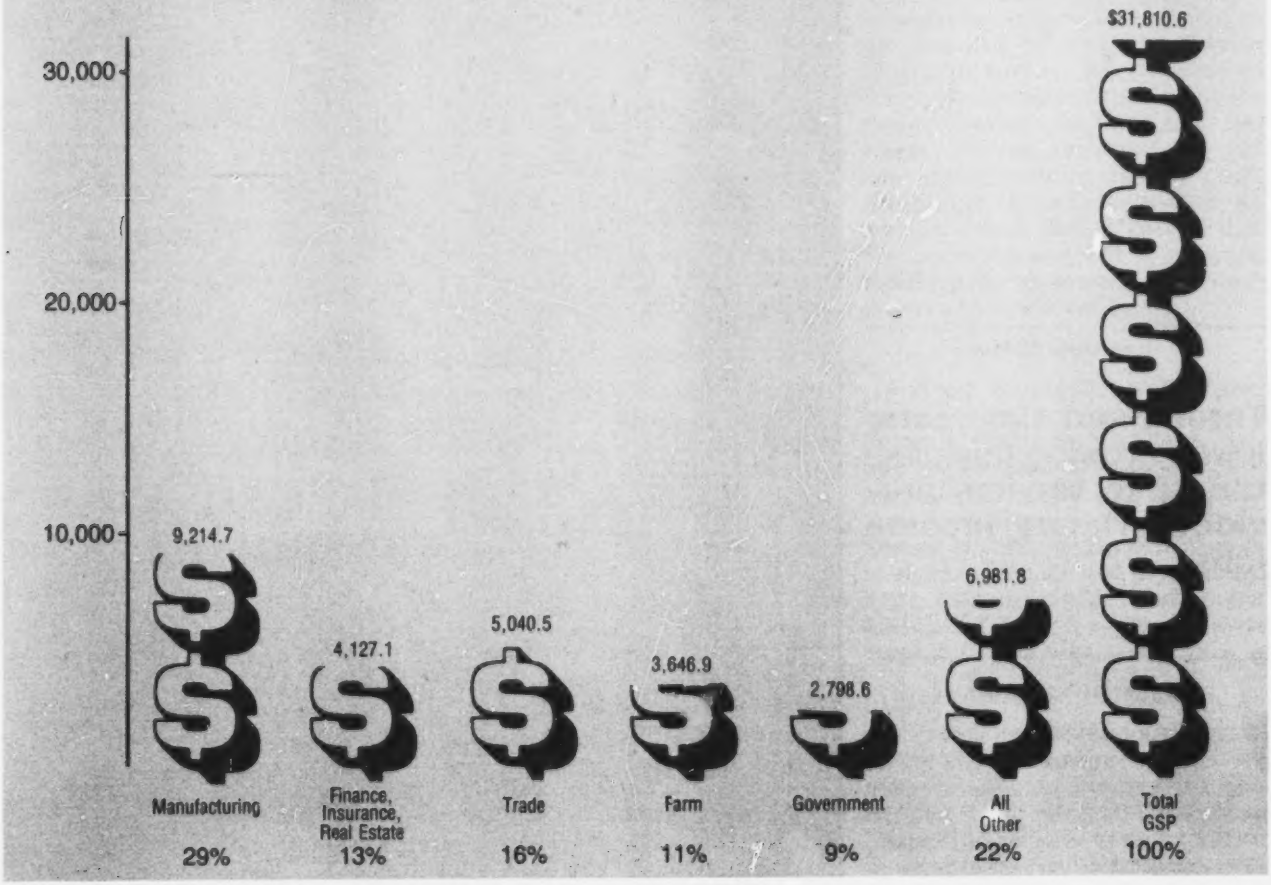
We read about the local farmer who is also an active member of the board of directors of a local industrial development corporation, contributing both time and money to its efforts. And, we question his actions.

"I want my small county seat town to survive," he tells us. "I want my children to be able to come to this community for doctors, lawyers, plumbers, electricians, schools and hospitals. If my community has to depend solely on the jobs provided by farming and the retail base that supports the farming industry, it cannot continue to exist." ✠

Iowa
a place to grow

Gross State Product, Iowa
(current dollars, in millions) 1979

G.S.P. is an estimate of the current market value of all final goods and services produced by the Iowa economy by a methodology similar to that used to calculate the U.S. Gross National Product. The manufacturing sector is the largest single contributor to G.S.P.



Economics: L
Beyond the Ja

Throughout the years, Iowa's growing manufacturing sector has provided primary income jobs.

What 100 New Factory Workers

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There are only four ways to create new wealth. They are: agriculture, manufacturing, mining and fishing. Other endeavors are merely an exchange of money, goods or services.

Keynesian economics, demand-pull inflation . . . econometrics . . . oligopoly. This is a small sample of the terms that tend to muddle up the entire science of economics . . . already difficult enough for many people to understand. And with Iowa trying to remove itself from the economic doldrums that have engulfed the nation and world, suddenly every economist has a theory and there's a theory for every economist. They quote statistics, one businessman used to say, "like a drunk uses a lamp post; more for support than illumination."

The science of economics, and the people who try to forecast or predict it, is a much-maligned area. It's a tough area for forecasts, because studying economics means studying the wants of people and satisfying those wants with a particular supply of products and services. More often than not, supply and demand aren't at equal levels. It's this disparity in supply and demand that is providing a rather anemic market for Iowa and worldly goods.

Creating New Wealth

To understand Iowa's economic problems, one has to look at how wealth in Iowa is created — where something of value is produced where it did not exist before. There are four methods of endeavor that create wealth: agriculture, manufacturing, mining and fishing. Any other endeavor is merely an *exchange* of money, goods or services.

Iowa's wealth is derived from agriculture and manufacturing. Mining in Iowa is a minor contributor to the total state economy.

In Iowa, agriculture accounts for $10 billion in cash receipts, manufacturing adds $30.7 billion and mining contributes nearly $292 million. And since Iowa can't even begin to consume all these products by itself, this wealth of products must be exported to other states and countries around the world.

Low Commodity Prices

But the cogs in this free enterprise machinery haven't been turning with the well-oiled precision of past days. With record crops becoming almost a yearly occurrence in Iowa, farmers are having difficult times coming up with more markets to handle the oversupply of agricultural products. And commodity prices have been low as a result.

An interesting marriage exists between Iowa agriculture and industry. Around 65 percent of Iowa manufacturing employment depends on agriculture to some extent. And with farm prices at low levels, that means Iowa farmers have less to spend on such big-ticket items such as tractors, implements and grain bins. And, of course, that has a depressing effect on Iowa industry, like temporary plant shutdowns and employee layoffs.

Lower Demand

And the economic ramifications become more pronounced. Since farmers, livestock producers, factory employees and manufacturers are walking around with less cash, they don't demand as many new homes, clothes, factory additions or haircuts. And once that momentum in the economy is lost, building up a full head of steam is a long, involved process.

Looking at Solutions

Suggestions for economic recovery are a dime a dozen: cut the prime interest rate so investment can become more attractive; put more money into savings, so there will be more money for investment pur-

poses; shrink government and its services so taxes don't put the bite on paychecks, increase exports of American products to help rein the burgeoning trade deficit.

All are good, simple, practical solutions for getting the economy moving again. But one is confronted with "the chicken or the egg" theory. What simple solution comes first?

Perhaps H. L. Mencken had the economy in mind when he uttered his oft-quoted dictum that "there is always an easy solution to every human problem . . . neat, plausible and wrong."

No Simple Cures

One cannot find a simple cure by slamming on the monetary brakes or slashing government spending or balancing the budget or cutting taxes or subjecting wages and prices to government restraints or controls. In formulating policies for full employment and satisfactory growth, there is no room for one-dimensional thinking. All known causes enter the economic diagnosis of the disease and all the known cures bear on the prognosis for its treatment. Policymakers have to be concerned with the reality of "trade-offs." Every change, or solution, has *costs* and *benefits*. These must be weighed carefully.

Attitudes and Economics

What does need to come first is a consideration of how attitudes affect the recovery of an economic sector. Too often, an adversary relationship among business, agriculture, labor and government is established when times are bad . . . each group blaming the other for a less than vigorous marketplace.

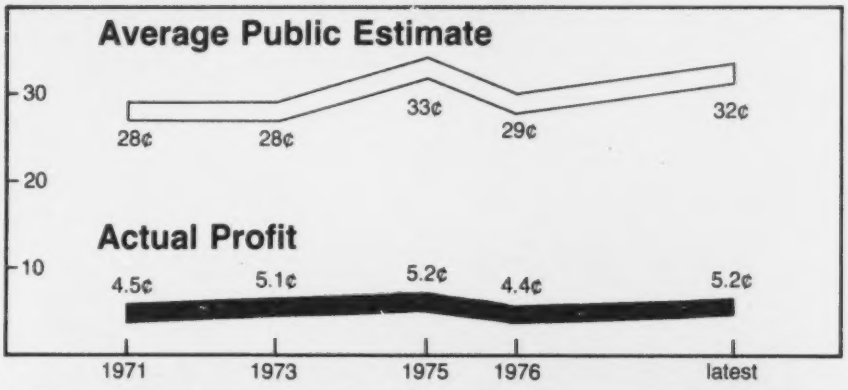
In its place needs to exist a relationship of mutual cooperation among the different sectors and awareness of the inner workings of the economy. No one need point a finger at another saying they're to blame. No one is really blameless.

James Thurber once wrote, "let's not look back in anger, or forward in fear, but around us in awareness."

Most people will say that point of awareness has been reached. Now it's time to look forward.

Manufacturer's Profits

Most people think profits are much higher than they really are. The Opinion Research Corporation has surveyed public opinions on profits, and measured them against actual profits. The public has felt for years that the average manufacturer's profits were about 30 cents on a dollar of sales (see top chart). The actual profit level has been around 5 cents on sales.



What's Reasonable

While Americans estimated that profits were 32 cents on sales in the latest survey, they felt that 26 cents would be a *reasonable* profit.

The *reasonable* profit figure of 26 cents is 5 times as much as the 5.2 cents the average manufacturer actually makes.

The Critical Alliance

Cooperation among business, labor, agriculture and government is the key to future improvements and growth.

Even an optimist would now grudgingly admit that all is not ideal in the Iowa economy. Because Iowa is not an island, the grip of the U.S. recession is causing higher unemployment and plant layoffs in the Hawkeye State, as well as throughout the nation.

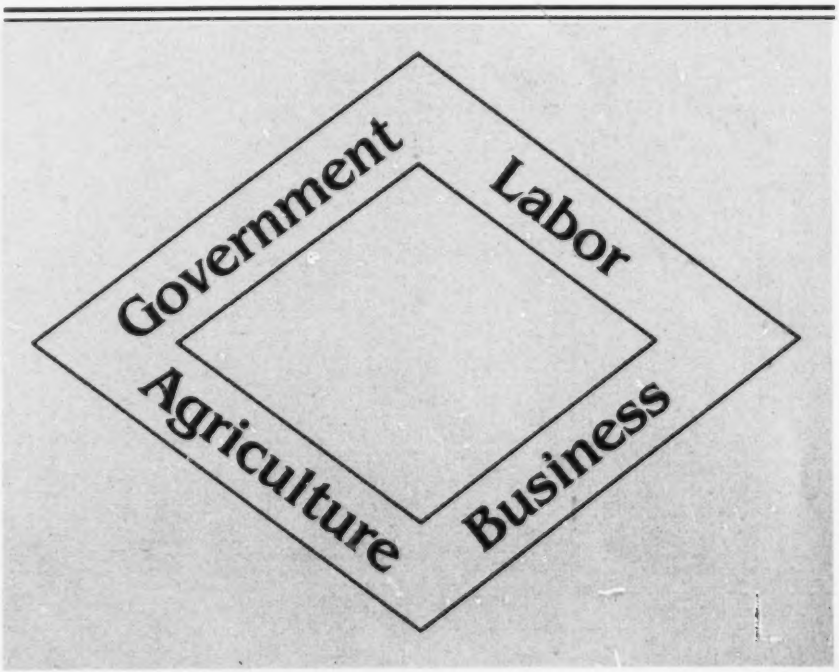
In the past, Iowans have been partially sheltered from the vacillation of national economic conditions because of our balance between agriculture and industry. Stagnation in one area was offset by stability in the other. This delicate balance has been shaken by the combination of a grain embargo, record setting crops, plant layoffs and reduced spending by the jobless.

Developing Solutions

We really have just one option. Iowans must realistically sum up obstacles and get on with developing the solutions.

Iowa is projecting a surplus of 1.5 percent of the revenue it will receive in fiscal 1982. According to a study by the National Conference of State Legislatures, 29 states predict they will end up with only 1 percent or less; 12 states say they will end up in the red.

The silver lining in the present cloud of recession is that Iowa's advantages are even more evident, even more attractive in comparison to many areas. Besides the cushion provided by our balance of industry and agriculture, which even this time has left us better off than the



majority of states, the quality of Iowa life and the quality of Iowa workers becomes extremely significant.

The Critical Alliance

People have not quit eating. They have not stopped needing the products manufactured by Iowa companies. The way out of this recession is a "critical alliance" among business, labor, agriculture and government to work together to sell Iowa products. As any experienced salesperson can tell you, a closed door just calls for another line of thinking, a new technique, adjustment to a change in needs.

Actions must include stressing our advantages, expanding the processing of raw commodities, reforming our business tax structure, beefing up our transportation system, and continuation of our precedent-setting energy policy.

Natural Resources

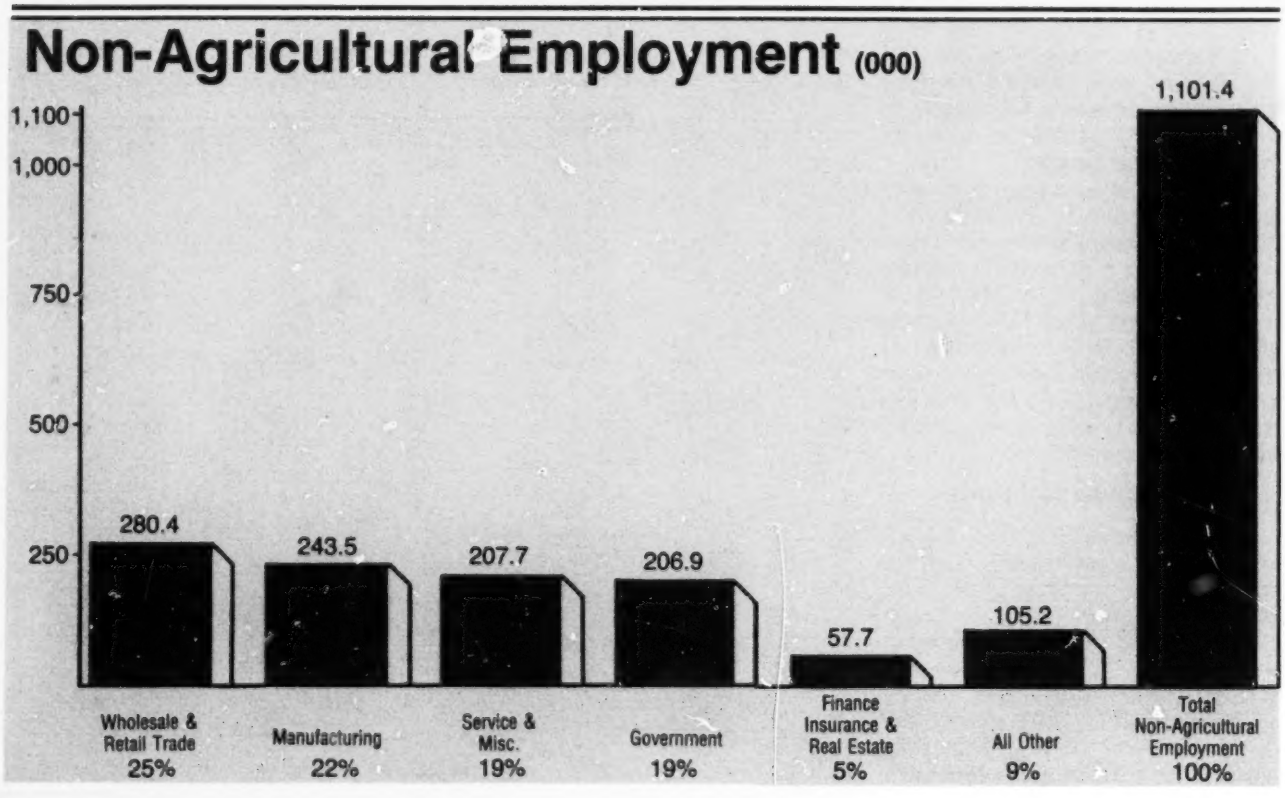
An advantage easy to take for granted is our abundant natural resources. Pope John Paul II, during his October, 1979, visit to Iowa, said, "You who live in the heartland of America have been entrusted with some of the earth's best land; the soil so rich in minerals, the climate so favorable for producing bountiful crops, with fresh water and unpolluted air available to all around you."

The quality of Iowa life can also be taken for granted. A recent article in one of the major business publications, *Inc.* magazine, ranked Iowa second in the nation for quality of life. Taken into account were such aspects of our lifestyle as quality of health care, education, low crime rate, long life expectancy, recreational facilities, cultural elements and cost of living.

Exceptional Education

Iowa education is also exceptional. We boast the highest literacy rate in the nation. More than 139,000 students are enrolled in the state's quality public and private colleges.

The strong educational background, combined with characteristics stemming from a hard-working agricultural heritage, provide a strong work force whose superiority can actually be measured in dollars. Iowa workers are 20 percent more productive than the average American worker, resulting in a yearly output of $9,887 more than the U.S. average. Iowans are independent, not afraid to do a job without being led by the hand. Figures show that the work ethic is alive and well in the Hawkeye State.



Iowa Advantages

Iowa's central location, competitive tax structure, Right to Work law, low debt per capita and strong financial community are assets that can provide future growth and profitability to companies looking to locate or expand. Industry is an essential part of Iowa's economy, with the value of industrial shipments three times that of the state's agricultural sector.

All members of Iowa's critical alliance must work together, especially during this time of economic hardship, to ensure that Iowa's tradition of excellence continues for future generations. The work has already begun.

Tax Reform

State government is making real progress on business tax reform. Governor Robert D. Ray sent a clear signal that Iowa recognizes the importance of the manufacturing sector by proposing specific corporate tax reforms in his "Condition of the State Message." The Iowa legislature has completed work on Ray's proposals which include: assessing new replacement machinery and equipment at 30 percent of its cost, adopting an accelerated depreciation schedule and continuing the phase-out of corporate personal property taxes.

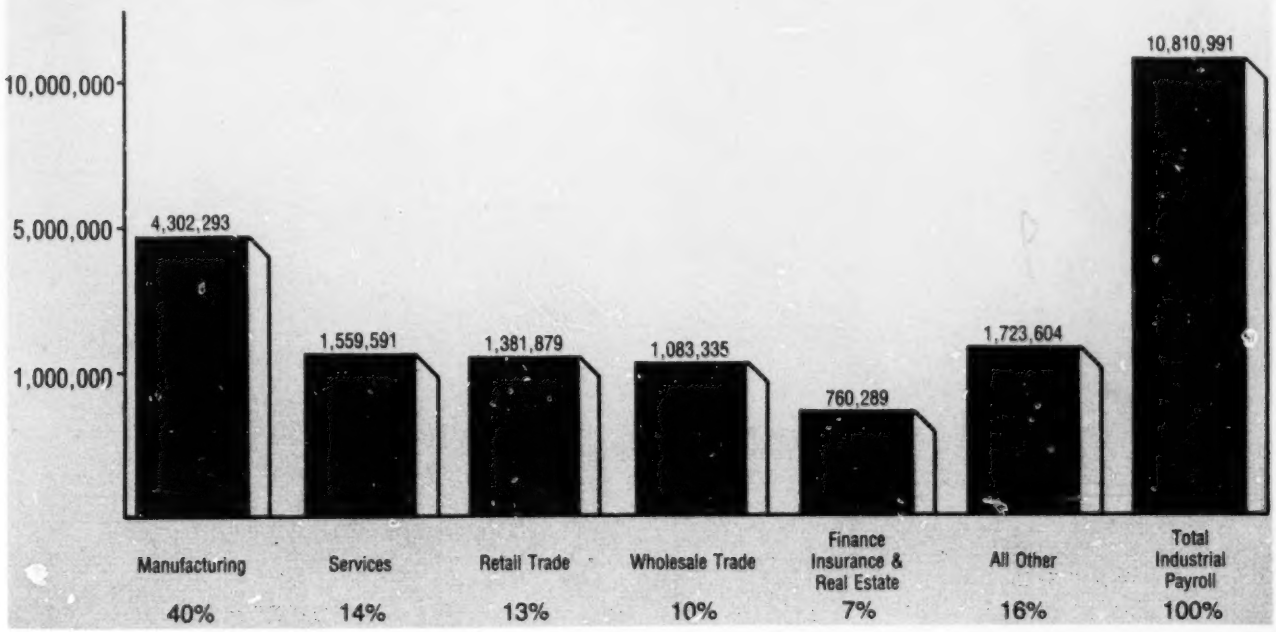
Working Together

Iowa management and labor are also making strides, working together to ensure sound operations with promising futures. Several Iowa industries have negotiated new contracts with careful consideration, by both parties, regarding financial arrangements and how job security and productivity can be increased during these difficult economic times.

Iowa's farmers raising corn and beef recently voted to continue and strengthen commodity promotional programs through voluntary check-off programs. Promotion is essential to developing markets for Iowa's agricultural products.

The things about Iowa that are special, that are coveted by others, form the message we have to communicate to others. While free from the stresses of big city life, Iowa enjoys many cultural, culinary and other "big city" opportunities. Perhaps one of Iowa's native sons said it best. "Iowa is people and land in rare harmony," according to Hugh Sidey of *Time* magazine. "Always, my heart has been drawn back to Iowa, which I now recognize to be more a state of mind and a way of life than anything else." ✦

Taxable Payrolls by Industry Group
(Annual $000)



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